Final Report

SWAP
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Wiltshire Council

▶ Pensions: Key Controls

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Pensions

Management Summary

As part of the 2012-13 audit plan a review has been undertaken to assess the adequacy of key controls and procedures in place for Pensions. This is to support the annual audit undertaken by the organisation's External Auditors.

The Key Control audit process focuses primarily on key risks relating to the organisation's major financial systems. It is essential that all key controls identified by the External Auditor are operating effectively to provide management with the necessary assurance. The key controls identified for this audit are discussed in the "Detailed Audit Report" which follows this Summary.

This report provides Management with a summary of the audit findings and assurance that, in no order of priority, each of the expected key controls are in place and adequately managing the associated risks. No significant weaknesses have been identified during this audit, so no Action Plan is proposed.

Summary of Significant Corporate Risks

The audit was undertaken to provide assurance that effective controls are in place for the following key risks identified by the external auditor:

1. Failure to review and authorise benefit payments including lump sums on death, lump sums on retirement and transfer out payments risks undetected material error and fraud.
2. Failure to produce and independently review payroll pension exception reports risks undetected loss through error, material misstatement and fraud.
3. Failure to appropriately authorise starters and leavers risks undetected material error, overpayment and fraud.
4. Failure to undertake periodic reconciliation of the pension payroll system risks material misstatement of balances.
5. Failure to undertaken bank reconciliations risks undetected error, material misstatement of balances and fraud.
6. Failure to undertake regular discussion and review of the pension deficit with governors and the actuary risks material loss and fraud.
7. Failure to formally approve IAS 19 assumptions risks material loss and misstatement.

Summary of Significant Findings

There were no significant findings identified during this review.

Further details of the audit findings are set out in the full audit report which follows this Management Summary.

Conclusion and Audit Opinion

Substantial

I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively at all times and risks against the achievement of objectives are well managed.

Detailed Audit Report

Objectives & Risks

The key objective and risks that could impact on the achievement of this objective are identified below.

Objective: To provide assurance on the effectiveness of mandatory key controls required by external audit, including:

- Authorisation of benefit payments including transfer out payments and lump sums on death or retirement
- Production and independent review of exception reports for pension payroll
- Authorisation of starters and leavers for the pension payroll
- Periodic reconciliation of the pension payroll system to the general ledger
- Bank reconciliations

Risks:

1. Failure to review and authorise benefit payments including lump sums on death, lump sums on retirement and transfer out payments risks undetected material error and fraud.

2. Failure to produce and independently review payroll pension exception reports risks undetected loss through error, material misstatement and fraud.

3. Failure to appropriately authorise starters and leavers risks undetected material error, overpayment and fraud.

4. Failure to undertake periodic reconciliation of the pension payroll system risks material misstatement of balances.

5. Failure to undertaken bank reconciliations risks undetected error, material misstatement of balances and fraud.

6. Failure to undertake regular discussion and review of the pension deficit with governors and the actuary risks material loss and fraud.

7. Failure to formally approve IAS 19 assumptions risks material loss and misstatement.

Method & Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

The audit covers the operation of controls during the first three quarters of financial year 2012-13.

Findings

The following paragraphs detail all findings that warrant the attention of management.

The findings are all grouped under the objective and risk that they relate.

1. **Risk:** 1. Failure to review and authorise benefit payments including lump sums on death, lump sums on retirement and transfer out payments risks undetected material error and fraud.

1.1 Key Control: Payments from the Pension Fund are appropriately authorised and reviewed, including lump sums on death, lump sums on retirement and transfer out payments.

The audit confirms there are appropriate processes within the Altair system which ensure the effective operation of controls over the review and authorisation of payments, including lump sums on death, lump sums on retirement and transfers out. When an officer in the Pensions Team completes a calculation within Altair, it is assigned to a checklist and another member of the team completes the process by checking the tasks and items within the checklist before the payment can be released. The payment is authorised by the team leader or manager before being sent to payroll for payment.

2. **Risk:** 2. Failure to produce and independently review payroll pension exception reports risks undetected loss through error, material misstatement and fraud.

2.1 Key Control: Pension payroll exception reports are regularly produced and independently reviewed.

Exception reports are routinely produced by the payroll system. They are investigated by the payroll team and appropriate adjustments made before the payroll can be run. The payroll officers annotate the reports with the results of their investigation of each item and any required changes. They then sign and date the reports to confirm completion.

3. **Risk:** 3. Failure to appropriately authorise starters and leavers risks undetected material error, overpayment and fraud.

3.1 Key Control: Records of starters and leavers in the pension payroll are appropriately authorised.

The audit confirms effective controls operate over the addition and removal of pensioners from the payroll. There can be delays in the updating of records but these are invariably due to circumstances beyond the Pension Team's control, such as an employer failing to provide early notification that a person is retiring or the late notification of a pensioner's death.

4. **Risk:** 4. Failure to undertake periodic reconciliation of the pension payroll system risks material misstatement of balances.

4.1 Key Control: The pension payroll system is periodically reconciled to the general ledger.

Previous Internal Audit reports on Pensions have consistently included recommendations that procedures should be developed for reconciling the pensions payroll system to the general ledger. The Internal Audit Report last year also noted that Central Finance had developed appropriate procedures which were then due for imminent adoption. I am pleased to report that reconciliations have been undertaken successfully for each period of the current year. The procedures follow the same principles as used for all other payrolls managed by the Council and are enhanced by the development of bespoke SAP reports to assist the Pensions reconciliation. The relevant control account is also monitored by Pensions to ensure balances are cleared within reasonable timescales.

5. **Risk:** 5. Failure to undertaken bank reconciliations risks undetected error, material misstatement of balances and fraud.

5.1 Key Control: Bank reconciliations are effectively completed.

The Pensions fund bank transactions are maintained within SAP "Company" 2000. They are reconciled to the balances on the bank statements on a monthly basis using spreadsheets which contain copies and downloads of the statements, balances and transactions required for the reconciliation.

The audit confirms that reconciliations are being effectively carried out and reviewed.

6. **Risk:** 6. Failure to undertake regular discussion and review of the pension deficit with governors and the actuary risks material loss and fraud.

6.1 Key Control: Evidence of regular discussions with Governors and the actuary on the pension deficit.

The Pension Fund Committee is kept fully aware of the situation regarding the pension fund deficit through the presentation of quarterly investment reports at meetings of the Committee. There was also a presentation by the actuary at the meeting in September 2012 which also referred to the potential impacts which current and anticipated developments and changes might have on fund valuations.

7. **Risk:** 7. Failure to formally approve IAS 19 assumptions risks material loss and misstatement.

7.1 Key Control: Management approval of IAS 19 assumptions.

The 2011-12 Accounts contain a note (on page 34) which states "The next actuarial valuation will be carried out as at 31 March 2013." This test therefore cannot be completed within the timescale of this interim audit but there is no reason to suppose that the actuarial assumptions will not be reviewed and agreed prior to publication of the Actuarial Statement as part of the Report and Accounts for the year ended 31 March 2013.

Audit Framework Definitions

Control Assurance Definitions

Substantial	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Corporate Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.